

FDIC State Profile

Summer 2005

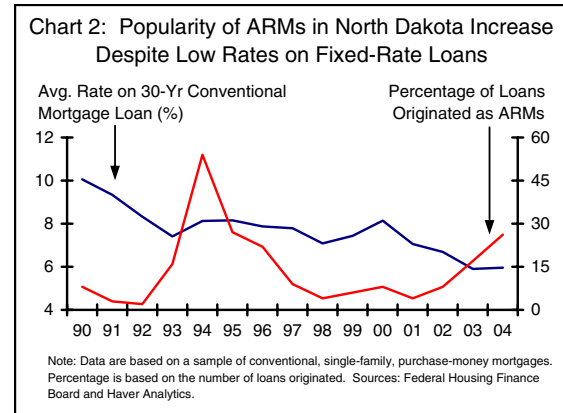
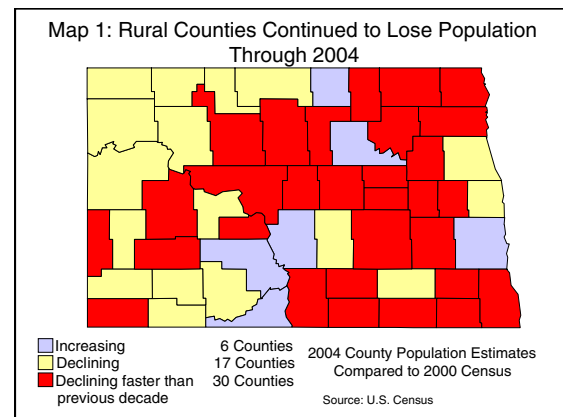
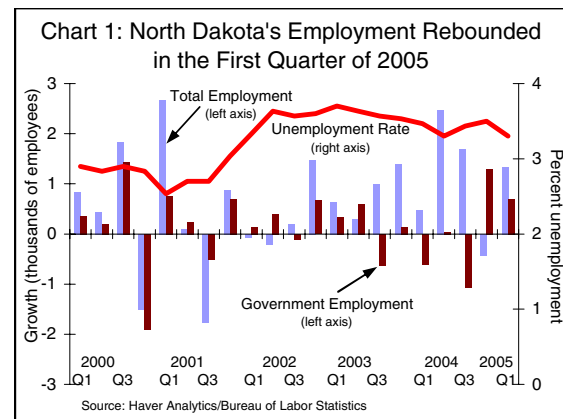
North Dakota

North Dakota's economic expansion continued in the first quarter of 2005 but faces significant downsizing of Grand Forks Air Force Base.

- North Dakota's economy added 1,300 jobs in the first quarter, rebounding from a slight decline in the previous quarter. The state's economy has gained jobs in ten of the past eleven quarters. North Dakota's unemployment rate declined to 3.3 percent in the first quarter 2005, the lowest rate of the 50 states (See Chart 1).
- North Dakota's government sector, which accounts for more than 22 percent of the state's jobs, faces a significant risk from downsizing at Grand Forks Air Force Base (AFB). As part of the current round of military consolidation, the U.S. Department of Defense recommended that two-thirds of the employees at Grand Forks AFB be transferred to other bases.
- Grand Forks AFB, which employs more than 3,900 people, is the second largest employer in **Grand Forks** and the third largest employer in North Dakota. The base estimates that its economic contribution in 2004 was \$380 million, or more than 12 percent of the metropolitan area's gross product.

North Dakota's rural counties have continued to lose population since the 2000 Census.

- According to the 2004 Estimates of County Population released by the Census Bureau in April 2005, North Dakota's population increased annually for the first time since 1996, adding nearly 1,000 people. Metropolitan areas led the population gains, with **Fargo**, **Grand Forks**, and **Bismarck** accounting for nearly all of the increase.
- Rural counties continued their trend of depopulation, however, as 47 of North Dakota's 53 counties lost population from 2000 to 2004. Because of rural depopulation, North Dakota lost more than 1.2 percent of its population during that period and was the only state in the nation to experience population declines.
- While recent rural population losses are a continuation of a decades-long trend, depopulation is accelerating over much of the state. Thirty counties lost population at a faster rate from 2000 to 2004 than from 1990 to 2000 (See Map 1).



State Profile

The popularity of adjustable-rate mortgages (ARMs) has increased despite low rates on fixed-rate mortgages.

- Despite historically low mortgage rates in 2003 and 2004, home purchasers in North Dakota have increasingly chosen ARMs (See Chart 2).
- Should interest rates increase, some ARM holders may be vulnerable to rising debt service requirements.
- Most of North Dakota's insured institutions, however, typically have not held many residential ARMs in their loan portfolios.

Although home prices appreciated significantly in many areas of the nation, North Dakota changes were more moderate.

- Home price appreciation in North Dakota averaged 8.5 percent during the year ending first quarter 2005, considerably less than the national rate of 12.5 percent (See Map 2). North Dakota ranked 29th of the 50 states in the percentage increase.
- Home prices in **Grand Forks** increased 11.6 percent, near the national average, reflecting estimates that indicate the metropolitan area's population increased for the first time since 1997. Home prices in the state's largest market, **Fargo**, grew 9.1 percent, while those in **Bismarck** grew 6.9 percent.

Agricultural credit quality continues to improve at North Dakota's farm banks.

- On a year-over-year basis, agricultural loan delinquencies declined to their lowest level in recent history as North Dakota farmers benefited from strong wheat production and prices, strong cattle prices, and high government support payments (See Chart 3).
- Agricultural loan charge-offs have also been subdued over the past decade, with most farm banks reporting minimal net charge-offs during that period.
- USDA forecasts, which indicate strong net farm income in 2005, suggest that agricultural loan problems should remain low at Iowa's farm banks this year.

Profitability increased from one year ago, largely because of greater net interest margins.

- At small community institutions, those with assets less than \$250 million, annualized pretax return on assets (ROA) increased slightly from one year ago and remains historically strong (See Table 1).
- Net interest margins, buoyed by strong loan growth, increased to the highest first quarter level in five years.

Loans to assets increased to 66.0 percent from 63.8 percent one year ago.

- A slight reduction in loan loss provisions reflected improved asset quality. Net charge-offs were just 0.1 percent in the first quarter of 2005, compared with 0.7 percent a year ago.

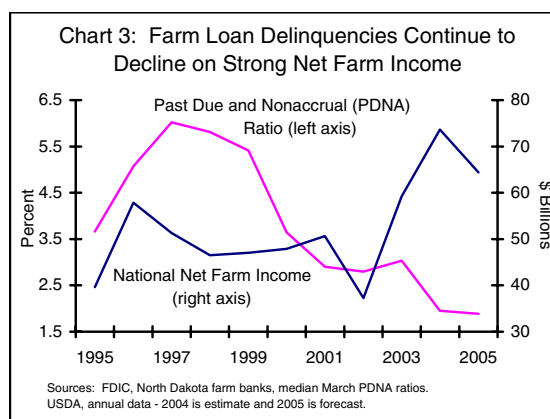
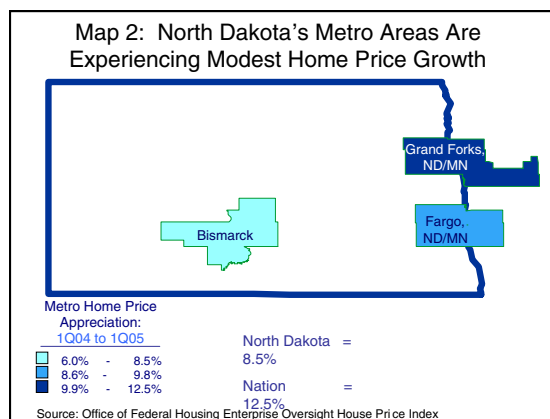


Table 1: Bank Profitability Increased From One Year Ago

Income statement contribution (as a percentage of average assets)			
	First Quarter (annualized)		Percentage Point Change
	2005	2004	
Net Interest Income	3.91	3.83	0.09
Noninterest Income	0.63	0.69	(0.06)
Noninterest Expense	2.93	2.94	0.00
Provision Expense	0.09	0.12	(0.03)
Security Gains & Losses	0.01	0.02	(0.01)
Net Income (ROA) Before Taxes	1.38	1.48	0.05

Source: FDIC. North Dakota small community institutions (total assets less than \$250 million), excluding denovo and specialty institutions.

North Dakota at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.0%	0.9%	0.6%	-0.3%	1.1%
Manufacturing (7%)	5.0%	1.3%	-0.7%	-2.1%	3.3%
Other (non-manufacturing) Goods-Producing (6%)	4.6%	8.1%	0.9%	-1.1%	-5.2%
Private Service-Producing (64%)	1.8%	1.0%	0.4%	-0.3%	1.4%
Government (22%)	1.1%	-0.8%	1.6%	0.6%	0.8%
Unemployment Rate (% of labor force)	3.3	3.5	3.7	3.3	2.5

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	9.0%	7.0%	2.2%	3.1%
Single-Family Home Permits	-20.8%	41.6%	16.9%	24.4%	-27.0%
Multifamily Building Permits	250.0%	18.7%	-17.3%	93.0%	-34.5%
Existing Home Sales	16.2%	-2.0%	-1.0%	15.9%	-2.2%
Home Price Index	8.5%	6.1%	5.1%	3.4%	5.5%
Bankruptcy Filings per 1000 people (quarterly level)	1.03	0.93	0.88	0.76	0.92

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	102	103	107	107	112
Total Assets (in millions)	15,765	19,378	19,954	19,059	18,810
New Institutions (# < 3 years)	1	0	1	1	1
Subchapter S Institutions	57	51	49	47	46

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.23	2.52	3.36	3.39	3.39
ALLL/Total Loans (median %)	1.61	1.69	1.72	1.75	1.81
ALLL/Noncurrent Loans (median multiple)	2.28	1.80	1.39	1.77	1.72
Net Loan Losses / Total Loans (median %)	0.10	0.09	0.12	0.10	0.12

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.34	9.28	9.16	9.03	9.44
Return on Assets (median %)	1.19	1.20	1.19	1.15	1.15
Pretax Return on Assets (median %)	1.51	1.50	1.51	1.53	1.50
Net Interest Margin (median %)	4.40	4.34	4.38	4.41	4.38
Yield on Earning Assets (median %)	7.13	7.06	7.23	7.43	7.80
Cost of Funding Earning Assets (median %)	2.67	2.68	2.81	3.01	3.38
Provisions to Avg. Assets (median %)	0.13	0.13	0.14	0.14	0.14
Noninterest Income to Avg. Assets (median %)	0.48	0.51	0.53	0.53	0.50
Overhead to Avg. Assets (median %)	2.91	2.94	2.91	2.91	2.91

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	64.5	61.1	61.7	60.3	58.2
Noncore Funding to Assets (median %)	12.8	12.6	12.3	11.5	11.5
Long-term Assets to Assets (median %, call filers)	12.5	14.4	12.2	13.9	13.3
Brokered Deposits (number of institutions)	22	20	20	17	17
Brokered Deposits to Assets (median % for those above)	3.8	1.8	1.7	1.1	1.5

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	101.0	97.7	103.6	100.9	95.2
Commercial Real Estate	60.3	58.8	53.4	49.7	41.2
<i>Construction & Development</i>	3.4	2.3	0.7	1.7	0.9
<i>Multifamily Residential Real Estate</i>	0.4	0.4	0.8	0.9	0.2
<i>Nonresidential Real Estate</i>	51.6	52.0	42.8	42.2	36.7
Residential Real Estate	42.8	43.3	44.2	46.4	44.0
Consumer	49.2	57.3	56.8	57.7	55.0
Agriculture	280.2	264.0	271.9	266.1	259.4

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Fargo, ND-MN	25	3,059	< \$250 million	92 (90.2%)
Bismarck, ND	14	1,546	\$250 million to \$1 billion	7 (6.9%)
Grand Forks, ND-MN	18	1,289	\$1 billion to \$10 billion	3 (2.9%)
			> \$10 billion	0 (0%)